



Where California Goes When West

City Manager's Message



City of Calexico

608 Heber Avenue

* Calexico, Ca 92231

* (760) 768-2110

City Manager's Budget Message

To: Honorable Mayor and Members of the City Council

Introduction

The budget for Fiscal Year 2009-10 represents a compilation of many different funding sources, with the major focus on the City's general fund. This document represents a cooperative effort to maintain general fund services while making the necessary fiscally responsible cuts. The economy of our State and nation significantly impact our ability to fund the level of services desired, but in these difficult times the City's financial solvency is our number one priority.

The City's budget is a spending plan consisting of revenues and appropriations expected to finance current operations, capital outlays, and current payments of principal and interest on long term debt. Governmental accounting practices stipulate separate funds be established for different types of activities, each of which have their own revenue source and expenditure budgets. The budget includes general, enterprises, internal service, capital projects, and debt service type funds and as you know, provides both external services to the public and internal services to departments.

The general fund makes up 25% of the total budget of approximately \$81 million and is comprised of public safety including police, fire and community development, administration including the offices of city manager, finance, city attorney, and human resources, community services including library, recreation and culture, and the general services department including general government facilities, parks, and a portion of the cost of street maintenance and repair.

The general fund appropriations by line item are intended to delineate how the projected resources will be utilized for the continuation of services and maintenance operations. The general fund revenues consists mainly of property taxes, sales taxes, and indirect cost reimbursement for services provided by the general fund to non-general fund departments, grants, and programs. Because each of the funds is considered its own accounting entity, only the general fund can be used for support of the general services mentioned above. Therefore, the City's ability to provide services is contingent on its ability to generate general fund revenues.

The City of Calexico budgets for FY 2008-09 and FY 2009-10 represent the greatest challenge in decades, as is the case for the majority of cities in California. Our general fund revenue base has been reduced significantly and consequently, the goal this year is to become more efficient in the use of our human resources, contain and reduce costs by making each department head responsible for staying within or under budget appropriations, and maximize revenue for services provided. Depending on actual revenues generated during the year, there may need to be revised budget projections, resulting in adjustments to the adopted budget.

Economic Overview

Consumer confidence has been weakened by the State and national economic woes and the decline in the housing market, resulting in a reduction in consumer spending on non-essential items. The State government has always looked upon cities and counties for financial bailout and transfer of costs to lessen the impact of State cuts. The fact that the State has certain legal authority to take money from cities leaves cities in a more vulnerable position financially. Calexico has suffered a decline in property tax, due to a reduction in assessed values and home foreclosures, and a decline in sales tax, as people have less disposable income or even worse have lost their jobs. The bottom line is we have no choice but to tighten our belt in order to be financially secure.

Financial Overview

The Proposed Budget for FY 2009-10, based on the tabulation of revenues net of appropriations, reflected a shortfall of \$3.08 million. This is due to a significant estimated reduction in general fund revenues and an increase for normal merit and benefit costs and operations and maintenance costs. Most General Fund tax and fee revenues declined from FY 2007-08 to FY 2008-09, even though total revenue reflected an increase of \$886,661. The increase was attributed mainly to one-time funds in FY 2008-09 for the sale of property to the Redevelopment Agency in the amount of \$1.193 million and another small vacant parcel for \$.134 million to Dr. Kelada. Another deviation is the one-time adjustment related to the agreement between the Redevelopment Agency and the City for the City Hall construction loan. As a result, a reimbursement in the amount of \$711,598 from Public Facilities Impact Fees to the General Fund was been booked to reflect the proper payment of that loan. Additionally, indirect cost allocation charges to non-general fund departments increased by approximately \$1 million. In summary, in FY 2008-09 the general fund received an infusion of approximately \$2 million of one-time monies.

In FY 2009-10 total general fund revenues as compared to FY 2008-09 are estimated to remain stable, mainly due to the increase in indirect cost allocation charges as stated above and an increase in user fees of approximately \$630,000 based on the study performed by Maximus, Inc., and police grants of approximately \$800,000 more than the prior year. In addition, the budget reflects a transfer of one-time monies from the general fund contingency reserve in the amount of \$500,000 and includes the use of ending June 30, 2009 fund balance of \$250,000.

In order to reduce the projected shortfall mentioned above, general fund departments were directed to reduce 15% from their supplies and services line items in the proposed budget. To further reduce costs 10 of the 13 vacant positions will remain vacant for FY 2009-10 for a savings of \$607,120 and only non-general fund position allocations were added to the budget. The existing position allocation for Human Resource Director has been added as a funded position, because of the critical need. Finally the City was forced to look at reducing salaries and benefits, which make up 76% of the total general fund appropriations. Through the meet and confer process, management and employees worked on a plan that would save jobs, while not increasing the cost to the employee for medical insurance coverage. The employees accepted furloughs based on their particular bargaining group's work schedule and agreements with the City's negotiating team.

City departments are faced with delivering services in their functional area in the most cost effective way within their allocated budgets. Further it may be necessary for each director to study their departmental operations to determine where they would make additional cuts should they be faced with further reductions during the fiscal year.

The City has attempted to provide funding for capital outlays for the past 2 years, through a long-term lease purchase agreement; however, general fund resources have been insufficient to fund the required payments over a 5 year period delaying acquisition of badly needed equipment. Again this year the requests for capital were numerous, but funding was not an option. The indefinite delay of capital purchases presents other issues that will become a pressing need to the City with each year that passes.

REVENUES

General Fund

The general fund revenue stream is critical to maintaining a basic level of services. The City must follow good business practices to be financially strong and attractive to potential business ventures.

The City determined in FY 2008-09 in order to cover the estimated general fund shortfall, rather than lay off City personnel which impacts service levels, it was more prudent to sell the gun club property to the Redevelopment Agency. The property was scheduled to be sold in any case, but the infusion of cash to the general fund was time sensitive. As a result the property was appraised and sold for \$1.193 of which only \$400,000 was scheduled to fund the potential deficit at June 30, 2009. During the budget process for FY 2009-10, the balance from that sale was designated to help fund the current budget shortfall.

During FY 2008-09 the City completed 2 revenue impact studies in an effort to charge justifiable rates for services. As I mentioned before, the studies were prepared by Maximus, Inc. One study focused on the reallocation of expenditures in the general fund to other funds, through an indirect cost allocation. The Indirect Cost Allocation Plan looked at all of the services provided internally between departments (general fund and non-general fund departments) based on factors such as staff time and materials, then

determined the cost of providing those services and calculated a charge rate at 100% of cost. The City then determined to charge the non-general fund departments at 75% of actual cost, with the exception of streets that could not pay for indirect costs without a backfill from the general fund and airport that would jeopardize the matching share required on grants.

The second study measured reasonable cost recovery for services requested by external customers and performed by City staff. These services are not provided to the general population as a whole, but to an applicant for a discretionary service where the applicant receives a specific monetary or personal benefit from the service provided. The fees were based on time studies of tasks involved to provide the service. The services and/or use fees are adopted through a master fee ordinance and set by resolution including the Police, Fire, Parks, Recreation and Community Center departments. If the City charges less than full actual cost of providing the service, the City is subsidizing the fee-payer. However, this does not preclude the City from actually choosing to subsidize an activity, if the benefit outweighs the cost.

Sales tax revenues are the largest single source of General Fund revenue. Given the conditions of the present local, state and national economy, we have conservatively projected sales tax and sales tax in-lieu revenues in the amount of \$3.98 million. The estimate represents a decrease of 6% over last years' actual revenues. Should the actual receipts for FY 2009-10 be lower than anticipated, as we progress through the fiscal year, it will be necessary to address the shortfall accordingly.

The property tax and property tax VLF revenues are estimated to decline 10% in FY 2009-10 over FY 2008-09 or \$466,982. The housing market crisis ending in foreclosures for many homeowners, who purchased during the boom and the drop in assessed value as a result of the County reassessing homes purchased from 2004 to present, has resulted in a significant shortfall in property tax revenues over the past 2 years. Actual revenues in FY 2007-08 for secured property tax were \$1.94 million, in FY 2008-09 \$1.79 million and for FY 2009-10 we have projected \$1.62 million or a 17% drop over the 2 year period.

The Police Department expects grant funding for the hiring of 2 police officers, overtime for the department, and equipment in excess of \$1 million for FY 2009-10. These grants are State and federally funded and give the City the ability to join forces with the Department of Homeland Security (DHS) and other agencies in fighting crime and drugs in our border City.

EXPENDITURES

Group Medical Insurance

The City self insures for medical insurance for employees and retirees and contracts with a consultant for the administration of the program. In FY 2007-08 the City contributed \$1.68 million to pay the cost of claims, administration of the medical program, and reinsurance, in FY 2008-09 the City contributed \$2.12 million, and in FY 2009-10 the

program is estimated to cost \$2.68 million. The negotiations for FY 2008-09 were completed late in the fiscal year and at that time employees agreed to contribute 50% of the premium for the balance of that fiscal year. During employee negotiations for FY 2009-10, the City agreed to pay 100% of the medical premiums for the employees. Overall the cost of associated with providing medical insurance to employees and their dependents and retirees has increased 11% over the 3 fiscal years.

In providing medical insurance to retirees, the City is required to comply with GASB Statement 45 (Governmental Accounting Standards Board) regarding accounting and financial reporting for post-employment benefits, not including pensions. This statement presents a fiscal challenge for the City to fund the current and future retired employees' health benefits. In 2009, the City contracted with The Epler Company, a consulting firm specializing in actuarial valuations to determine the City's long term liability. The result of that study estimates the OPEB (Other Post Employment Benefits) liability at approximately \$15.7 million. The amount represents the present value of all contributions for retiree health benefits projected to be paid by the City for current and future retirees.

The City has taken steps through its negotiation process with employee bargaining groups to eliminate retiree health benefits for employees hired after July 2008, with the exception of the police public safety group.

Internal Service Funds

The City is self insured through Southern California Joint Powers Insurance Authority (SCJPIA) for both workers' compensation insurance and general liability insurance, which are included on the City's financials as internal service funds.

Workers' compensation insurance is based on the City's experience of claims as a factor of experience for all agencies in the program over a 7 year period. The City is billed for the expected premium at the beginning of each fiscal year and then an adjustment is made at fiscal year-end resulting in either a refund for overpayment or an invoice for additional premium due. As a result the estimate for FY 2009-10 as billed by the SCJPIA is \$680,822 or \$34,555 less than FY 2008-09 actual cost.

The general liability insurance program, including public liability and property damage, fire, building and equipment, and environmental insurance coverage, but only the public liability and property damage insurance is based on experience and claims with a year-end adjustment. In FY 2009-10 the combined premiums are \$847,387 or \$37,462 more than the premium for FY 2008-09. The total premium for FY 2008-09 was \$809,925 or an increase of \$27,462 over the prior FY 2007-08 of \$743,219. The premiums have increased \$104,168 or 14% from FY 2007-08 to FY 2009-10, indicating the City's claims and/or the dollar value of those claims over the past few years has increased.

Contingency

The Provision for Contingencies budget is established at \$50,000 for FY 2009-10 for general fund emergencies not budgeted. The monies are used to fund unanticipated costs

and can only be authorized by City Council approval. In Fiscal Year 2007-08 the City's adjusted budget and actual expenditures for contingencies were \$195,329, but in FY 2008-09 the budget was reduced to zero to help balance the general fund shortfall.

Public Safety

Police and Fire Departments continue to be the largest general fund budgets totaling \$11.31 million out of a \$19.81 million general fund. As our City has grown, so does our need for public safety personnel grow, but with the general fund financial constraints over the past 2 years the City has had to curtail expansion of our forces, hiring only those positions that become vacant during the fiscal year. The City has had to forego capital equipment expenditures in both departments, as a result of the falling revenues. The City placed a ½ cent sales tax measure on the ballot in 2009 that would have provided badly needed resources for public safety; however, the measure did not pass.

Community Development Services

The total revenue generated by the building, planning, and engineering divisions for FY 2007-08 was \$1.68 million, but as the economy declined, the City experienced a significant drop in development projects. In FY 2009-10 the revenues dropped to \$513,698 or a decrease of 70%. As a result of the Maximus, Inc. user fee study performed during fiscal year 2008-09, the City Council recently approved fee adjustments to Community Development Services fees, which will potentially generate \$840,963.

General Services

The Public Works Department was changed in 2008 to reflect the functions actually performed by this division and renamed the General Services Administration (GSA). General Services includes the areas of public facilities maintenance, streets, fleet, and parks with a combined budget of \$8,586,458. Funding for these divisions with the exception of streets and park grants, are entirely funded with general fund monies. In the case of streets, the City receives special gas tax, Prop 42 congestion relief, Measure D, and transportation development act funding. Until FY 2009-10 the City received Article 8(a) local streets and roads monies, but in FY 2008-09 we were notified by the County that there will be no future funding for this article. In FY 2007-08, the City received \$330,136 and in FY 2008-09 the amount was reduced to \$127,474. For Fiscal Year 2009-10 we are using approximately \$786,000 of fund balance to pay for street expenditures, which leaves only \$32,000 remaining. The financial burden of the personnel and maintenance costs funded by Article 8(a) will be transferred to the general fund for FY 2010-11.

ENTERPRISE FUNDS

Waste Collection

Expenditures in this budget unit are related to the collection of solid waste within the City of Calexico. The budget reflects an annual estimated expense of \$1.78 million. The residential customer revenues are pass-thru funds, meaning the City of Calexico, pursuant to a contract with Allied Waste, processes the residential billings and collects the monies

ENTERPRISE FUNDS

Waste Collection

Expenditures in this budget unit are related to the collection of solid waste within the City of Calexico. The budget reflects an annual estimated expense of \$1.78 million. The residential customer revenues are pass-thru funds, meaning the City of Calexico, pursuant to a contract with Allied Waste, processes the residential billings and collects the monies for the refuse service provider. In the case of commercial accounts, Allied Waste bills and collects for those services directly. The contract provides for payment of franchise fees to the enterprise fund and a recycling rebate from the sale of commodities collected within the City at 50% net of processing costs. In addition, Allied Waste pays the City \$50,000 annually for street maintenance with a 2% adjustment factor.

Wastewater Treatment/Collections

The increase in the Fiscal Year 2009-10 budget for wastewater reflects a \$3.35 million increase over FY 2008-09 or a budget of \$7.03 million, of which \$2.77 million is capital expenditures for the purchase of equipment, manhole replacements, and upgrades to existing lift stations. The wastewater department will be adding one new permanent full-time position, an office assistant, to assist in the daily office work at the plant.

The City is in the process of issuing wastewater bonds to fund an expansion and upgrade of its wastewater system in the approximate amount of \$30 million. The project will increase the capacity from 4.3 million gallons per day to 8.0 MGD. The improvements include demolition of existing facilities, construction of new facilities, grading, and excavation, to provide a new main lift station to replace equipment built in 1967, a digester and primary clarifier, and a concrete structure and equipment to supply diffused air to aerator basins. There will be no increase in the consumer rate in FY 2009-10 to pay for these bonds.

Water

The proposed fiscal year maintenance and operations expenditure budget is \$6.59 million or approximately 7% above last year's actual expenditures. The budget does not reflect any increase in the consumer rates for FY 2009-10. The capital outlay list includes various capital improvements including a 48" raw waterline reservoir at the northeast corner of Sam Ellis Street and V. V. Williams, Water treatment plant chlorine room, construction of a new water treatment plant, 3.0 million gallon tank rehabilitation, and an eastside water distribution/transmission main line to be paid from proceeds of water bonds issued in 2007 and water operating funds.

Redevelopment Agency

The proposed 2009-10 Redevelopment Agency administration and housing budgets are approximately \$7.42 million. The total tax increment for FY 2009-10 is estimated at \$5.06 million, which is used for administration, debt service, and special projects. The redevelopment and housing administration departments are responsible for oversight and management services of the various State and Federal grants awarded to the Agency. The Agency has multiple active grants for which it will continue to solicit participation,

such as the HOME Program and CDBG (Community Development Block Grant) Program.

The Agency receives property tax increment based on assessed value of those parcels located within the Redevelopment Agency area. Included in the Agency capital budget for Fiscal Year 2009-10 is funding for City projects such as the renovation of fire station No. 1, First Street Promenade, rehabilitation of the tourist parking lot, air conditioning units in the Library, and economic development, that the City might not otherwise be able to accomplish.

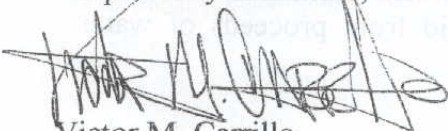
CONCLUSION

The City's general fund shortfall for FY 2009-10 will be funded by June 30, 2009 ending fund balance. Over the past 2 years, we have seen an erosion of our tax base with uncertainty as to recovery. With general fund revenues shrinking, City's expenditures cannot continue to grow without serious ramifications. The City will have to be proactive and implement cost savings measures, streamline operations, and maximize efficiency in service delivery. Should the revenues be less than projected, the City may have to take a serious look at personnel costs.

My appreciation goes to all Department Heads for their dedication and hard work on the budget. I also commend City employees for being most understanding during these difficult times. Cuts affect the entire City, whether you are an employee of the City or receive services provided by the City. The resources just are not there for many of the things we would like to accomplish in Calexico, but we will look to the future and make good financial decisions and promote economic development in an effort to bring more commercial and retail service businesses to our City with associated sales tax revenues. At some point the economy will rebound.

Finally, I would like to take this opportunity to thank City staff involved in the budget process and express a sincere appreciation to Mayor Ouzan, Mayor Pro-Tem John Moreno, Council Members Fuentes, Castro, and Romero for your support and involvement during the entire budget process for FY 2009-10.

Respectfully submitted,



Victor M. Carrillo
City Manager



Where California Goes When It Goes West